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UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF GEORGIA

ATLANTA DIVISION

-HTW

EUGENE KRATZ, Individually and on Behalf of All Others Similarly Situated,	Civil Action No. 1 07 CV 0725
Plaintiff,	CLASS ACTION
vs.	COMPLAINT FOR VIOLATION OF THE FEDERAL SECURITIES LAWS
BEAZER HOMES USA, INC., IAN J. McCARTHY, JAMES O'LEARY, MICHAEL T. RAND and KENNETH J. GARY,	
Defendants.	DEMAND FOR JURY TRIAL

INTRODUCTION

1. This is a securities class action on behalf of all persons who purchased or otherwise acquired the common stock of Beazer Homes USA, Inc. ("Beazer" or the "Company") between July 27, 2006 and March 27, 2007 (the "Class Period"), against Beazer and certain of its officers and/or directors for violations of the Securities Exchange Act of 1934 ("1934 Act").

2. Beazer designs, sells and builds primarily single-family homes in various locations within the United States. The Company offers economy homes primarily to entry-level buyers, value homes to entry-level and move-up buyers, and style homes to move-up buyers as well as homes to buyers over 55 years of age. The Company also provides mortgage origination and title insurance services to its homebuyers. Beazer is headquartered in Atlanta, Georgia.

3. During the Class Period, defendants issued materially false and misleading statements regarding the Company's business and prospects. As a result of defendants' false statements, Beazer stock traded at artificially inflated prices during the Class Period, reaching a high of $48 per share in December 2006

4 On March 18, 2007, *The Charlotte Observer* reported that federal housing officials were reviewing whether Beazer complied with federal rules in arranging government-insured loans for buyers in its subdivisions

5. On March 21, 2007, Beazer announced the resignation of James O'Leary, the Company's Chief Financial Officer ("CFO") and Executive Vice President

6. Then, on March 27, 2007, after the market closed, the Company issued a press release entitled "Beazer Homes Responds to Media Reports." The press release stated in part:

> In response to media reports and inquiries into the possibility of a federal investigation of the Company in connection with alleged mortgage fraud, Beazer Homes USA, Inc. has the following response.
>
> At this time, Beazer Homes can not comment on or verify any investigation. However, we will fully cooperate with any investigation by any government agency.
>
> We build homes nationwide. The allegations by the Charlotte Observer focused primarily on one Charlotte subdivision, Southern Chase In that subdivision, Beazer Mortgage Corporation originated the loans for the borrowers and served as a broker, not a lender. We were involved on the front end of the loan transaction process, compiling the necessary information, which we then submitted to the lender for underwriting review The ultimate underwriting decision for the loan rested with the lender.
>
> Based on our internal investigations to date, we have not found any evidence to support the allegations in the Charlotte Observer.

7. On March 28, 2007, Beazer's stock collapsed $2.64 per share to close at $28.77 per share a one-day decline of 9% on volume of 19 6 million shares 13 times the average three-month volume.

8 The true facts, which were known by the defendants but concealed from the investing public during the Class Period, were as follows:

(a) The Company lacked requisite internal controls over its lending practices, which, as a result of its improper lending practices prior to and during the Class Period would lead to numerous foreclosures and other problems;

(b) The Company's business was growing in large part due to its improper lending practices to low-income borrowers;

(c) Many of the Company's buyers would not be able to pay their loans after the first two years, which would lead to decreased sales and earnings and numerous foreclosures; and

(d) Given the increased volatility in the lending market, the Company had no reasonable basis to make projections about its 2007 results. As a result, the Company's projections issued during the Class Period about its 2007 results were at a minimum reckless

9. As a result of defendants' false statements, Beazer's stock price traded at inflated levels during the Class Period However, after the above revelations seeped into the market, the Company's shares were hammered by massive sales of the Company's shares sending them down 40% from their Class Period high.

JURISDICTION AND VENUE

10. Jurisdiction is conferred by §27 of the 1934 Act. The claims asserted herein arise under §§10(b) and 20(a) of the 1934 Act and SEC Rule 10b-5.

11. (a) Venue is proper in this District pursuant to §27 of the 1934 Act. Many of the false and misleading statements were made in or issued from this District.

(b) Beazer's principal executive offices are located at 1000 Abernathy Road, Suite 1200, Atlanta, Georgia.

PARTIES

12. Plaintiff Eugene Kratz purchased Beazer common stock as described in the attached certification and was damaged thereby.

13. Defendant Beazer designs, sells and builds primarily single-family homes in various locations within the United States. The Company offers homes at various price points to appeal to homebuyers across various demographic segments. The Company also provides mortgage origination and title insurance services to its homebuyers. The Company's products are offered in categories, such as Economy, Value and Style.

14. Defendant Ian J. McCarthy ("McCarthy") is, and at all relevant times was, a director, President and Chief Executive Officer ("CEO") of Beazer. During the

Class Period, McCarthy was responsible for the Company's false financial statements and reaped proceeds of over $7.7 million by selling his Beazer stock.

15. Defendant James O'Leary ("O'Leary") was Executive Vice President and CFO of Beazer from 2003 until his resignation on March 23, 2007. O'Leary has remained with the Company on an advisory basis until May 1, 2007. During the Class Period O'Leary was responsible for the Company's false financial statements and reaped proceeds of over $2.0 million by selling his Beazer stock.

16. Defendant Michael T. Rand ("Rand") is, and at all relevant times was, Senior Vice President and Chief Accounting Officer of the Company. During the Class Period, Rand was responsible for the Company's false financial statements.

17. Defendant Kenneth J. Gary ("Gary") was Executive Vice President and General Counsel of Beazer until his termination from the Company on February 12, 2007. During the Class Period, Gary was responsible for the Company's false financial statements.

18. Defendants McCarthy, O'Leary, Rand and Gary (the "Individual Defendants"), because of their positions with the Company, possessed the power and authority to control the contents of Beazer's quarterly reports, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, i.e., the market. They were provided with copies of the Company's reports

and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions with the Company, and their access to material non-public information available to them but not to the public, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public and that the positive representations being made were then materially false and misleading. The Individual Defendants are liable for the false statements pleaded herein at ¶¶23-25 and 28.

FRAUDULENT SCHEME AND COURSE OF BUSINESS

19. Defendants are liable for: (i) making false statements; or (ii) failing to disclose adverse facts known to them about Beazer. Defendants' fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of Beazer common stock was a success, as it: (i) deceived the investing public regarding Beazer's prospects and business; (ii) artificially inflated the price of Beazer's common stock; (iii) allowed defendants McCarthy and O'Leary to sell over $9.7 million worth of their own Beazer stock at artificially inflated prices, and (iv) caused plaintiff and other members of the Class to purchase Beazer common stock at inflated prices

BACKGROUND

20. Beazer engages in the design building, and sale of single-family homes in the United States. It offers economy homes primarily to entry-level buyers, value homes to entry-level and move-up buyers, and style homes to move-up buyers, as well as homes to buyers over 55 years of age The Company also provides mortgage origination and title insurance services to its homebuyers. Beazer sells its homes through commissioned employees and independent brokers. The Company offers homes at various price points to appeal to homebuyers across various demographic segments.

21 On January 19, 2006, Beazer issued a press release entitled "Beazer Homes Reports First Quarter 2006 EPS of $2.00, up 27%, Company Expects Diluted EPS to Meet or Exceed $10.50 for Fiscal Year 2006" The press release stated in part

> Beazer Homes USA, Inc today announced results for the quarter ended December 31, 2005, reporting a record for quarterly earnings per share. Highlights of the quarter, compared to the same period of the prior year, are as follows:
>
> Quarter Ended December 31, 2005
>
> – Net income of $89.9 million, or $2 00 per diluted share (up 29 0% and 27.4%, respectively)
>
> – Home closings: 3,829 (up 7 1%)
>
> – Total revenues: $1.11 billion (up 21 3%)

- Operating income margin: 12.6% (up 40 basis points)
- New orders: 3,872 homes (up 9.2%), sales value $1.13 billion (up 11.3%)
- Backlog at 12/31/05: 9,276 homes (up 10.1%), sales value $2.78 billion (up 18.3%)

Record December Quarter

"We are pleased to announce record results for our first quarter of fiscal 2006," said President and Chief Executive Officer, Ian J. McCarthy. "We generated quarterly revenues of $1.1 billion on home closings of 3,829, up 21% and 7% from the first quarter of fiscal 2005, respectively, and both representing first quarter company records. Furthermore, net earnings and earnings per diluted share in the December quarter increased 29% and 27%, respectively, also representing first quarter records."

"These results illustrate the effectiveness of our Profitable Growth Strategy aimed at achieving greater profitability by optimizing efficiencies, selectively increasing market penetration, and leveraging our national brand," McCarthy continued. "Beazer Homes believes its ongoing commitment to execution of this strategy will position the company well in both the near-term environment and long-term environment. Presently, while certain housing markets are experiencing a return to normalized levels of activity, compared to recent years, the long-term industry fundamentals remain extremely compelling."

"Beazer Homes' backlog now stands at a first quarter record level of 9,276 homes with a sales value of $2.78 billion, up 10% and 18%, respectively from the backlog homes and sales value a year ago. We believe this sizeable backlog provides the basis for strong financial performance in fiscal 2006," added McCarthy.

Closings of 3,829 homes represents a first quarter record and resulted from year-over-year increases in the Southeast, Central and Mid-Atlantic regions, offset partially by declines in the Midwest and West regions. The increase in the Southeast was achieved despite timing

issues in which several closings were realized in the previous quarter to avoid potential delays associated with hurricane activity. Lower closings in the Midwest were attributed primarily to declines in Indiana, where prior quarters' sales have been relatively modest. In the West region, higher closings in Arizona and Colorado were offset by lower closings in California and Nevada resulting from community opening delays coupled with a moderation in demand from year-ago levels. Closings in the West region were particularly impacted by entitlement delays in Northern California, which have led to slower than anticipated community openings.

The growth in new home orders to 3,872 homes for the quarter reflects increases in almost all markets in the Southeast, Central and Midwest regions, offset partially by lower new home orders in both the West and Mid-Atlantic regions. In the West, higher new home orders in California and Colorado were offset by declines in Arizona and Nevada resulting from moderating incremental demand and timing issues associated with community openings. Lower new home orders in the Mid-Atlantic region resulted primarily from lower orders coupled with higher cancellations in Virginia and Maryland as demand slowed from extremely high levels experienced during the previous year. The overall increase in new home orders of 9.2% reflects the overall strength of the company's diversified geographic profile

Strong Financial Performance in December Quarter

"We achieved record earnings this quarter as a result of our ongoing focus on the specific initiatives supporting our Profitable Growth Strategy," said James O Leary, Executive Vice President and Chief Financial Officer. "During the quarter, we continued our comprehensive review of opportunities to minimize underperforming investments and provide capital to support our Profitable Growth Strategy while providing a meaningful return to our shareholders in the form of our previously-announced share repurchase program. We monetized approximately $25 million of land in the first quarter, while slowing land purchases in those markets that have provided returns below our expectations. We will continue this reallocation process by

focusing on those investments that will optimize our overall returns while returning capital to our shareholders."

Execution of Share Repurchase Program

As previously announced in November 2005, the Board of Directors, as part of the further development of the company's Profitable Growth Strategy to enhance shareholder value in the context of the current market environment, authorized the expansion of the company's existing share repurchase program to a total of 10 million shares. During the first quarter of fiscal 2006, the company repurchased 1,014,600 shares of its common stock for approximately $67.0 million or $66 per share, while maintaining a debt to capitalization ratio of 47%, within its target range. In addition, the company has entered into a plan under Rule 10b5-1 as part of the share repurchase program. Subject to market conditions and other factors, the company expects to make share repurchases of $200 - $250 million in fiscal 2006. At December 31, 2005, there were approximately 8 million shares remaining under the current authorization.

Fiscal 2006 EPS Outlook

"Our current level of backlog, coupled with expectations for further competitive advantages for large public builders such as Beazer Homes, provides us with confidence in our future growth opportunities," said McCarthy. "In addition, we expect continued execution of our Profitable Growth Strategy in the near term will result in continued growth and meaningfully enhanced shareholder value. As such, we expect fiscal 2006 diluted earnings per share to meet or exceed $10.50 per share."

22. On April 27, 2006, Beazer issued a press release entitled "Beazer Homes Reports Record Second Quarter 2006 EPS of $2.35, Company Repurchases 1.01 Million Shares in Q2 06, Diluted EPS Now Expected to be in the Range of $10.00 – $10.50 for Fiscal Year 2006." The press release stated in part:

Beazer Homes USA, Inc today announced results for the quarter ended March 31, 2006, reporting a record for second quarter earnings per share Highlights of the quarter, compared to the same period of the prior year, are as follows:

Quarter Ended March 31, 2006

- Net income of $104 4 million, or $2.35 per diluted share, compared to a reported net loss of $84.3 million, or $2 09 per diluted share in the prior year's second quarter, which included a non-cash goodwill impairment charge of $130 2 million Excluding the goodwill impairment charge, adjusted earnings per diluted share in last year's second quarter was $1.04.
- Home closings 4,273 (up 18 6%).
- Total revenues: $1.27 billion (up 30.0%)
- Operating income margin 13.0%, compared to an operating loss margin in the prior year's second quarter of (6.0%), which included the goodwill impairment charge
- New orders 4,224 homes (down 19.4%)
- Backlog at 3/31/06: 9,227 homes with a sales value of $2 79 billion, compared to 10,064 homes with a sales value of $2.90 billion at 3/31/05
- Repurchased 1 01 million shares for approximately $66 2 million, year-to-date share repurchases totaled 2.02 million for $133.2 million.

Record March Quarter

"We are pleased to announce record results for our second quarter of fiscal 2006," said President and Chief Executive Officer, Ian J. McCarthy "We generated quarterly revenues of $1.27 billion on home closings of 4,273, up 30% and 19% from the second quarter of fiscal

2005, respectively, both second quarter company records. Furthermore, net earnings and earnings per diluted share in the March quarter totaled $104 million, and $2.35, respectively, both also second quarter records."

"In a number of markets across the country, we have seen the pace of sales decline and price appreciation moderate relative to that experienced over the past several years, as evidenced by the lower net orders this quarter," McCarthy continued. "However, we continue to believe that the long-term industry fundamentals, including increased demand driven by demographic and employment trends coupled with further supply constraints in our major markets, remain compelling. Our broad geographic and product diversity, coupled with our commitment to profitable growth and the optimal allocation of capital, position us well in both the near and long term business environments."

Closings of 4,273 homes represents a second quarter record and resulted from year-over-year increases in all regions except for the West. Increased closings in Arizona, Colorado and Nevada were offset by a decline in California, which was particularly impacted by continued entitlement delays in Sacramento, which have led to slower than anticipated community openings, coupled with moderating demand in that market.

Net new home orders totaled 4,224 homes for the quarter, where increases in several markets in both the Southeast and Central regions were offset primarily by significantly lower new home orders in the West region. In addition, during the quarter the company experienced an increase in the rate of order cancellations from the prior year. In the West, sales declines in Arizona, California and Nevada resulted from both moderating demand and delays associated with community openings. Both of these issues were particularly pronounced in Sacramento, where new order declines were the most significant. In addition, lower new home orders in some Florida markets resulted primarily from moderating demand relative to extremely high levels experienced during the previous year. While orders in the Mid-Atlantic were lower than year-ago levels, market conditions in this region appear to be improving sequentially from those experienced in the first quarter of the fiscal year.

Financial Performance in March Quarter

"We achieved record earnings and improved operating income margin this quarter as we continue to focus on enhanced profitability and the optimal allocation of capital," said James O'Leary, Executive Vice President and Chief Financial Officer. "We reduced investment in underperforming markets while investing for the future in our most profitable markets and providing a meaningful return to our shareholders through our share repurchase program. During the quarter, we exited certain Indiana sub-markets and curtailed operations in Memphis, with the expectation of redeploying this capital into higher returning opportunities prospectively. These actions, together with our continued focus on improved profitability, should position us well going forward."

The company achieved a 13.0% operating income margin in the second quarter, which was an improvement both from the first quarter and year-over-year. In the year ago period, operating income margin was negatively impacted by both the $130.2 million goodwill impairment charge and $45.0 million of expenses associated with the Trinity class action settlement.

Share Repurchases

During the second quarter of fiscal 2006, the company repurchased 1,007,200 shares of its common stock under its 10 million share repurchase authorization for approximately $66.2 million or $65.73 per share. At the same time, the company maintained a debt to capitalization ratio of 49%, within its target range. Year to date, the company has repurchased 2,021,800 shares, for a total of $133.2 million.

Fiscal 2006 EPS Outlook

McCarthy concluded: "We expect continued execution of our Profitable Growth Strategy, including our share repurchase program, to result in continued growth and enhanced shareholder value in the near and long term. However, the current sales environment in many markets is more difficult than previously anticipated. In addition, as we optimize our capital base and exit markets and land positions returning less than

> our overall cost of capital. we incur some incremental period costs. As such, we now have broadened our range for expected fiscal 2006 diluted earnings per share to $10.00 – $10.50 to explicitly address these factors. This assumes no further deterioration in new order trends during the remaining spring and summer months of this year."

DEFENDANTS' FALSE AND MISLEADING STATEMENTS ISSUED DURING THE CLASS PERIOD

23. On July 27, 2006, Beazer issued a press release entitled "Beazer Homes Reports Third Quarter 2006 EPS of $2.37; Company Repurchases 1.1 Million Shares in Q3 06, Diluted EPS Now Expected to be in the Range of $9.25 - $9.75 for Fiscal Year 2006." The press release stated in part:

> Beazer Homes USA, Inc. today announced results for the quarter ended June 30, 2006. Highlights of the quarter are as follows:
>
> Quarter Ended June 30, 2006
>
> – Net income of $102.6 million, or $2.37 per diluted share, compared to net income of $112.7 million, or $2.50 per diluted share in the prior year's third quarter
>
> – Home closings: 4,156, compared to 4,631 in the prior year.
>
> – Total revenues: $1.20 billion, compared to $1.29 billion in the prior year.
>
> – Operating income margin: 13.0%, compared to 13.8% in the prior year.
>
> – New orders: 4,378 homes, compared to 5,202 in the prior year.

- Backlog at 6/30/06: 9,449 homes with a sales value of \$2.85 billion, compared to 10,635 homes with a sales value of \$3.12 billion at 6/30/05.

- Repurchased 1.07 million shares for approximately \$50.1 million; year-to-date share repurchases totaled 3.09 million for \$183.3 million.

"Beazer Homes delivered solid fiscal third quarter financial results in an increasingly difficult housing market," said President and Chief Executive Officer, Ian J. McCarthy. "Across the country, the housing markets that had experienced rapid price appreciation have seen significant increases in cancellation rates and resale home inventories. While it is difficult to predict the duration of these current market trends, our broad geographic and product diversity, coupled with our commitment to profitability and prudent capital allocation, should position us well for the future. We continue to believe that the long-term industry fundamentals, based on demographic driven demand and employment trends, together with further supply constraints, remain compelling."

Total home closings declined 10.3% from the prior year as decreases in closings in the West and Florida homebuilding segments were offset partially by increases in the Mid-Atlantic, Southeast and Other homebuilding segments. Net new home orders totaled 4,378 homes for the quarter, a decline of 15.8% from the third quarter of the prior year. Increases in several markets in the Southeast homebuilding segment and Texas in the Other homebuilding segment were offset primarily by significantly decreased new home orders in the West and Florida homebuilding segments. Conditions in each of the company's major markets have become considerably more challenging as the seasonal strengthening of sales trends did not materialize to the extent previously anticipated and historically experienced.

The company achieved an operating income margin of 13.0% in the third quarter, a decline of 80 basis points from the prior year, as a result of a higher percentage of closings from lower margin markets, higher market driven sales incentives and costs associated with exiting

markets and land option contracts no longer meeting the company's return criteria These costs were offset by both a reduction in warranty accruals and insurance recoveries related to progress made in resolving the Trinity Homes warranty issue.

Capital Allocation Initiatives, Liquidity and Share Repurchases

"While the current market environment is more challenging than anticipated earlier in the year, we remain focused on the value drivers which we believe will benefit us in the long term," said James O'Leary, Executive Vice President and Chief Financial Officer "During the quarter, we exited less profitable markets and positions while raising the liquidity required to take advantage of the opportunities that will generate meaningfully higher returns in the future. The increase in our revolving credit facility and the two debt offerings completed this quarter meaningfully strengthened our financial position and liquidity, positioning us for the eventual upturn We will continue to focus on opportunistically growing our business while prudently returning capital to our shareholders during this more challenging period"

The results for the quarter included approximately $11 million in pre-tax charges to write off land options and exit positions that were no longer providing sufficient returns. The company also incurred approximately $1 million of additional pre-tax charges during the quarter to exit land positions and close its operations in Ft Wayne and Lafayette, Indiana while significantly downsizing its operations in Memphis, Tenn. Collectively these actions will focus the company's spending on its highest value opportunities.

During the third quarter of fiscal 2006, the company repurchased 1,069,100 shares of its common stock under its 10 million share repurchase authorization for approximately $50.1 million or $46.88 per share Year to date, the company has repurchased 3,090,900 shares, for a total of $183.3 million. At June 30, net debt to total capitalization stood at 52% The company expects its net debt to capitalization ratio to be in its year-end target range of under 50% at September 30 after it completes what is its historically strongest quarter for closings and cash flow generation

Trinity Homes Update

The company regularly reviews its estimate of the costs required to resolve the claims associated with the Trinity Homes class action lawsuit which was settled in October 2004 During the recent quarter's review, the company concluded that, based on the numbers of homes remediated and estimates of costs to resolve the remaining claims, approximately $15 million of accruals associated with this matter were no longer required. Since the commencement of the remediation program, the company's cost per home has continued to decrease as homes requiring more extensive repairs were addressed first, coupled with improvement in the internal processes and procedures as the company gained experience in addressing these issues These improvements, which include enhanced bidding and inspection processes, have yielded meaningful benefits on a per home basis Also during the quarter the company realized approximately $4 million in insurance and subcontractor recoveries related to reimbursement for defense, investigative and remediation costs The company continues to aggressively pursue recovery of defense, investigative and remediation costs from both its insurance carriers and subcontractors to obtain maximum restitution.

Fiscal 2006 EPS Outlook

McCarthy concluded, "We expect continued execution of our Profitable Growth Strategy, including our share repurchase program, to result in continued profitability and enhanced shareholder value in the near and long term. Looking ahead, we do not see conditions in the housing markets improving significantly in the remainder of the fiscal year. As such, we have adjusted our expectation for our fiscal 2006 diluted earnings per share to be in a range of $9.25- $9 75 This compares to adjusted earnings per share of $8 72 in fiscal 2005."

24. On November 7, 2006, Beazer issued a press release entitled "Beazer Homes Reports Fourth Quarter and FY 2006 Financial Results." The press release stated in part:

Beazer Homes USA, Inc today announced results for the quarter and fiscal year ended September 30, 2006 Highlights of both the quarter and fiscal year ended September 30, 2006, compared to the same periods of the prior year are as follows:

Quarter Ended September 30, 2006

- Net income of $91.9 million, or $2.19 per diluted share, compared to net income of $164.4 million, or $3.61 per diluted share in the prior year's fourth quarter
- Home closings: 6,411 homes, compared to 6,339 in the prior year
- Total revenues: $1.88 billion, compared to $1 81 billion in the prior year.
- Operating income margin 8 0%, compared to 14 1% in the prior year.
- New orders: 2,064 homes, compared to 4,937 in the prior year.
- Repurchased 557 400 shares for approximately $22.1 million.

Year Ended September 30, 2006

- Net income of $388 8 million, or $8.89 per diluted share, compared to reported net income of $262 5 million, or $5.87 per diluted share, and adjusted net income of $392 8, or $8.72 per diluted share in FY 2005.
- Home closings: 18,669 compared to 18,146 in the prior year.
- Total revenues: $5.46 billion, compared to $5.00 billion in the prior year

- Operating income margin: 11.2% compared 9.7% on a reported basis and 12.4% on an adjusted basis in FY 2005
- New orders: 14,538 compared to 18,923 in the prior year.
- Backlog at 9/30/06: 5,102 homes with a sales value of $1.56 billion compared to 9,233 homes with a sales value $2.72 billion in the prior year.
- Repurchased 3.65 million shares for approximately $205.4 million.
- Year-end net debt-to-capitalization ratio as of 9/30/06 49.5%

"Beazer Homes had record fourth quarter closings and revenues in fiscal 2006 as we focused on converting our existing backlog in what remains a challenging housing market," said President and Chief Executive Officer, Ian J. McCarthy. "Despite our strong close of fiscal 2006, most markets across the country continue to experience higher levels of resale home inventories, lower levels of demand for new homes, significant increases in cancellation rates and significantly higher discounting. As it is difficult to predict the duration of these factors we have proactively taken steps to align our overhead structure and capital spending with our expectations for a reduced level of home closings in fiscal 2007. We believe this disciplined commitment to profitability and prudent capital allocation, coupled with our broad geographic and product diversity, will position us well for the continuing difficult market environment and the eventual upturn. We continue to believe that the long-term industry fundamentals, based on demographic driven demand and employment trends, together with further supply constraints, remain compelling."

Total home closings of 6,411 in the quarter were 1% above the prior year's record quarter as decreased closings in Florida and the Mid-Atlantic were offset by increases in the West, Southeast and Other homebuilding segments. Net new home orders totaled 2,064 homes for the quarter, a decline of 58% from the fourth quarter of the prior year,

resulting from both reduced demand across the company's markets and a significantly higher rate of cancellations from the prior year

"We remain focused on reducing costs and efficiently allocating capital in this challenging business environment," said James O'Leary, Executive Vice President and Chief Financial Officer. "During September and October, we undertook a comprehensive review of our overhead structure in light of our reduced volume expectations for fiscal 2007, bringing our overall headcount down by approximately 1,000 positions, or 25%. We also reduced our controlled lot count by over 15% during the fourth quarter by eliminating non-strategic positions to align our land supply with our current expectations for home closings. These steps are intended to maintain our sound balance sheet and strong financial position so that we can capitalize on those future opportunities that will generate meaningfully higher returns prospectively."

Operating margin declined to 8 0% in the fourth quarter as a result of a higher percentage of closings from lower margin markets, higher market driven sales incentives and costs associated with overhead structure realignment and exiting of land positions. These results included pre-tax charges of approximately $18 2 million to write off land options and exit positions that were no longer providing sufficient returns and $5 6 million to recognize inventory impairments. The company also incurred approximately $1.1 million in severance costs during the fourth quarter of fiscal 2006 related to the alignment of its overhead structure.

During the fourth quarter of fiscal 2006, the company repurchased 557,400 shares of its common stock for $22.1 million under its 10 million share repurchase authorization For fiscal year 2006 the company repurchased 3,648,300 shares for $205.4 million At September 30, net debt to total capitalization stood at 49.5%, and the company had no outstanding borrowings under its primary revolving credit facility.

Fiscal 2007 Outlook

The company previously announced that it anticipates home closings in the range of 12,000 - 13,500 in fiscal 2007. It expects new

orders in the range of 12,000 - 14,000 for this period The attainment of closings and new orders in these ranges assumes the resumption of positive year-over-year sales comparisons at varying levels by the last quarter of the 2007 fiscal year.

Achievement of the company's fiscal 2007 forecast of 13,500 closings is expected to result in diluted earnings per share of approximately $3 65 This forecast assumes a stabilization of average gross margins during fiscal 2007 at or near the levels attained in the fiscal 2006 fourth quarter. The company has not provided a diluted earnings per share estimate for the 12,000 unit level of closings as there is insufficient visibility to assess the level of margins, the potential for additional impairments, or further overhead reductions required at this volume level.

The company expects to close approximately 2,500 homes during the quarter ending December 31, 2006. During this quarter, the company also expects to incur approximately $4.0 million of additional severance and related costs associated with the previously referenced overhead alignment

During this period, the Company is focused on maintaining balance sheet strength, reducing costs, and maximizing its financial resources to better position the company to take advantage of those opportunities that will arise when conditions stabilize The steps taken in September and October to align the company's cost structure with the current environment are consistent with the company's goal to be in the top quartile of its peer group with respect to margins and returns.

25. On January 25, 2007, Beazer revised its first quarter 2007 financial results, stating in part:

Beazer Homes USA, Inc today announced financial results for the quarter ended December 31, 2006. Summary results of the quarter are as follows:

Quarter Ended December 31, 2006

- Reported net loss of $(59.0) million, or $(1.54) per share, including charges related to inventory impairments and abandonment of land option contracts of $119.9 million on a pre-tax basis, compared to net income of $89.9 million, or $2.00 per diluted share in the first quarter of the last fiscal year. Excluding charges for inventory impairments and abandonment of land option contracts, adjusted net income was $15.9 million, or $0.41 per diluted share.

- Home closings: 2,660 homes, compared to 3,829 in the first quarter of the prior year.

- Total revenues: $803.0 million, compared to $1.1 billion in the first quarter of the prior year.

- New orders: 1,779 homes, compared to 3,872 in the first quarter of the prior year.

- Lots under control totaled 83,422 at 12/31/06, a 22% decline from the prior year.

- Unsold homes under construction declined 27% from the fourth quarter of fiscal 2006.

- Backlog at 12/31/06: 4,221 homes with a sales value of $1.29 billion compared to 9,276 homes with a sales value $2.78 billion in the prior year.

"Operating conditions remained extremely challenging for the housing industry during our first quarter of fiscal 2007," said President and Chief Executive Officer, Ian J. McCarthy. "Most markets across the country continue to experience lower levels of demand for new homes, high cancellation rates and significant levels of discounting. At this point, we have yet to see any meaningful evidence of a sustainable recovery in the housing market, although we would expect to gain a better read on the market as the traditional spring selling season gets underway."

Total home closings of 2,660 during the first quarter were 31% below the prior fiscal year's first quarter record. Net new home orders totaled 1,779 homes for the quarter, a decline of 54% from the first quarter record of the prior fiscal year, resulting from both reduced demand across the Company's markets and a higher rate of cancellations at 43%, compared to a more historically normal level of cancellations at 26% in the prior year's first quarter. However, the cancellation rate was lower sequentially from 57% in the fourth quarter of fiscal 2006.

"During the first quarter, historically our weakest in terms of new orders and closings, we prioritized those initiatives aimed at both strengthening our financial capabilities and positioning us for an anticipated increase in activity as we enter the spring selling season. These initiatives include implementing overhead reductions, converting existing backlog into closings and reducing unsold home inventories." McCarthy continued "We believe this disciplined approach, coupled with our broad geographic and product diversity, will position us well for a continuing difficult market environment and the eventual upturn We maintain that the long-term industry fundamentals, based on demographic driven demand and employment trends, together with further supply constraints, remain compelling"

"We remain focused on reducing costs throughout our business and enhancing liquidity as this challenging business environment continues," said James O'Leary, Executive Vice President and Chief Financial Officer. 'We have aligned our overhead structure with our reduced volume expectations in fiscal 2007. We have proactively reduced our controlled lot count by over 20% compared to the prior year, by eliminating non-strategic positions to align our land supply with our current expectations for home closings These steps are intended to maintain our strong balance sheet and liquidity so that we are in a position to capitalize on those future opportunities that will generate meaningfully higher returns when the housing market recovers"

During the first quarter, operating margin was negatively impacted by higher market driven sales incentives and reduced revenue as compared to the same period a year ago In addition, the Company incurred pre-tax charges to abandon land option contracts and to

recognize inventory impairments of $25.2 million and $94.7 million, respectively. As previously disclosed, the Company also incurred approximately $4.0 million in severance costs during the first quarter of fiscal 2007 related to the alignment of its overhead structure.

Fiscal 2007 Outlook

The current market environment continues to be characterized by weak demand, with heavy discounting required to drive meaningful sales volume. While this could improve as the year progresses, the Company currently believes that the low end of its previously announced outlook of 12,000 - 13,500 closings is now a more reasonable target in fiscal 2007. At this level of closings and the current conditions in the marketplace, the Company currently expects fiscal 2007 diluted earnings per share to be in the range of $1.25 - $1.50 prior to any impact of inventory impairments and abandonment of land option contracts.

During this period, the Company will focus on maintaining balance sheet strength, continue to reduce costs, and maximize its financial resources to better position the Company to take advantage of those opportunities that will arise when conditions stabilize. Steps taken to date to align the Company's cost structure with the current environment are consistent with the Company's goal to be in the top quartile of its peer group with respect to margins and returns.

26. On February 14, 2007, Beazer terminated the employment of defendant Gary for "a pattern of personal conduct which includes violations of company policies."

27. On March 18, 2007, *The Charlotte Observer* reported:

Mark and Lea Tingley bought a new home in 2001 in a subdivision called Southern Chase. Photos on the family computer show a smiling young couple holding a baby girl in a bare room.

They recall feeling surprised they could afford a house.

And thrilled. It was their first home, their largest investment, in the neighborhood where they planned to raise a family

Beazer Homes USA built the Tingleys' home Southern Chase was a new kind of subdivision for Beazer, an experiment in selling low-cost homes to low-income families.

The strategy was a financial success for Beazer

But the neighborhood fell apart.

Seventy-seven buyers have lost homes to foreclosure in a subdivision of 406 homes. That's about one in five, more than six times the national rate.

Some homes sat empty. Others became rentals Prices dropped.

Standing in his side yard last fall, Mark Tingley pointed to holes in his siding, garbage in neighboring yards, overgrown lawns junked cars He feels angry, cheated and trapped.

"We were just so happy," he said. "Now, no one is happy"

The buyers in Southern Chase share responsibility for the decisions they made.

But an Observer investigation found Beazer acted in ways that made a high rate of foreclosures inevitable. Beazer not only built the homes in Southern Chase, it arranged mortgage loans for two-thirds of the buyers. The company used that control to arrange larger loans than some buyers could afford That allowed it to include the cost of financial incentives in the price of homes.

Some of Beazer's actions violated federal lending rules, the Observer found.

Beazer said its practices in Southern Chase were "in strict compliance with federal, state and local laws and regulations." The

company said in a written statement that the foreclosures were mostly due to economic difficulties experienced by the buyers

"Beazer is committed to providing quality homes of superior value," the letter read in part.

The company's CEO, Ian McCarthy, declined to speak with the Observer.

The Federal Housing Administration, which insured most of the mortgage loans, failed to address the problems. The government has paid more than $5 million to cover defaulted loans in Southern Chase It continues to insure new Beazer loans

The Department of Housing and Urban Development, which administers the FHA program, told the Observer it was not aware of the problems in Southern Chase and did not plan to investigate the loans it insured for buyers there

Demand 'hot as a match'

The night before Southern Chase opened in 1997, people camped outside the sales office, waiting to pick the best lots.

Home prices started below $80,000, roughly half the Charlotte-area average Demand was "hot as a match," said Barry Helms, the sales agent who greeted them. He remembers selling six or seven homes the first day.

The unusually low prices were a strategic decision for Beazer. Too many companies were building homes in the Charlotte area for traditional first-time owners, the company said in its 1997 annual report Beazer's answer was to build and sell homes for less.

Beazer also was responding to opportunity. The federal government was pushing to expand home ownership. It was encouraging mortgage lenders to relax standards, to make loans available to many lower-income families for the first time The FHA offered to insure the loans If the borrower didn't pay, the government would.

Beazer, which operated in the Carolinas at the time as Squires Homes, chose a site off N.C. 49 in Concord, where land was still relatively cheap.

The subdivision is 15 minutes from Lowe's Motor Speedway, so Beazer gave racing names to the streets: Winners Circle, Rockingham Lane. It built vinyl-sided homes on small lots, mostly one story, an average of 1,327 square feet.

Contractors did the building. Beazer focused on marketing. It held pizza parties at nearby apartment complexes. It took renants to see homes.

"We believe in the dream," read a Beazer flier distributed to apartments in Concord. "We believe that everyone deserves to own their own home."

But as the company pushed to find new buyers, it increasingly crossed the line between selling to people who could barely afford homes, and selling to people who couldn't.

* * *

Costly loan maneuvers

The Tingleys moved into their new home in April 2001. Lea cleared out her 401(k) to pay $2,500 toward closing costs.

The keys came in a manila envelope with instructions on the front:

"1)Dump on table.

2) Place key on ring.

3) Do the 'Happy Dance' (Jump up and down shouting wildly.)"

The thrill did not last.

Lea had applied for the loan without Mark because he had credit problems.

She omitted from her application a monthly payment of $350 on a leased Dodge Avenger.

Lea said a Beazer employee told her to do it because the application also didn't include Mark's income

"At the time it made sense to me and I was just excited about owning the home," Lea said She says she knows she shouldn't have omitted the payment, but she trusted the employee

Loan documents show that Beazer Mortgage prepared a final version of Lea's application before the closing On that final version, Lea's monthly income was overstated by $187 It had been correct on the original application Lea signed It is unclear when the number changed.

FHA rules required Beazer to document the borrower's income and debts. Lea's credit report and W-2 show the accurate numbers.

Knowingly falsifying information on a loan application is a federal crime

Lea says she didn't notice the change until the Observer pointed it out this fall

The company did not respond to The Observer's written questions about the loan.

The changes allowed Lea to qualify for the loan she needed

But in the summer of 2001, three months after buying the home Lea called the dealership and asked to have the Avenger repossessed She could not afford the car and the mortgage.

28 On March 21, 2007, the Company announced the resignation of defendant O'Leary, stating in part:

Beazer Homes USA, Inc. announced the resignation today of James O'Leary, Executive Vice President and Chief Financial Officer, effective March 23, 2007. Mr O'Leary is leaving the Company to become President and Chief Executive Officer of Kaydon Corporation, where he has been a member of the Board of Directors since 2005.

Until a replacement is named, all corporate functions previously reporting to Mr O'Leary will report directly to President and Chief Executive Officer, Ian J. McCarthy. To assist with the transition, Mr O'Leary has agreed to be available to the Company on an advisory basis until May 1, 2007

"Jim has played a significant role in Beazer Homes' success over the past five years and has been instrumental in numerous corporate initiatives aimed at profitable growth and maximizing shareholder value," said Mr. McCarthy. "While we will miss him and his broad business and financial experience, this is an excellent move for Jim and one for which he is well-suited. We wish him all the best as he moves on to this new opportunity."

"I am extremely excited about the opportunities that lie ahead in assuming the leadership of Kaydon," said Mr. O'Leary "However, the decision to leave Beazer Homes has been an extremely difficult one I appreciate the opportunities and experience Ian, Brian Beazer and our Board of Directors have provided for me. I am also extremely grateful for the hard work and loyalty exhibited over the past five years by my many friends and coworkers at Beazer Homes, who will continue to make significant contributions to the success of the Company."

29. Then, on March 27, 2007, after the market closed, Beazer issued a press release entitled "Beazer Homes Responds to Media Reports." The press release stated in part

In response to media reports and inquiries into the possibility of a federal investigation of the Company in connection with alleged mortgage fraud, Beazer Homes USA, Inc has the following response.

> At this time, Beazer Homes can not comment on or verify any investigation. However, we will fully cooperate with any investigation by any government agency.
>
> We build homes nationwide. The allegations by the Charlotte Observer focused primarily on one Charlotte subdivision, Southern Chase. In that subdivision, Beazer Mortgage Corporation originated the loans for the borrowers and served as a broker, not a lender. We were involved on the front end of the loan transaction process, compiling the necessary information, which we then submitted to the lender for underwriting review. The ultimate underwriting decision for the loan rested with the lender.
>
> Based on our internal investigations to date, we have not found any evidence to support the allegations in the Charlotte Observer.

30. On March 28, 2007, Beazer's stock collapsed $2.64 per share to close at $28.77 per share, a one-day decline of 9% on volume of 19.6 million shares, 13 times the average three-month volume.

31. The true facts, which were known by the defendants but concealed from the investing public during the Class Period, were as follows:

(a) The Company lacked requisite internal controls over its lending practices, which, as a result of its improper lending practices prior to and during the Class Period, would lead to numerous foreclosures and other problems;

(b) The Company's business was growing in large part due to its improper lending practices to low-income borrowers;

(c) Many of the Company's buyers would not be able to pay their loans after the first two years, which would lead to decreased sales and earnings and numerous foreclosures, and

(d) Given the increased volatility in the lending market, the Company had no reasonable basis to make projections about its 2007 results. As a result, the Company's projections issued during the Class Period about its 2007 results were at a minimum reckless.

32. As a result of defendants' false statements, Beazer's stock price traded at inflated levels during the Class Period. However, after the above revelations seeped into the market, the Company's shares were hammered by massive sales of the Company's shares sending them down 40% from their Class Period high.

LOSS CAUSATION/ECONOMIC LOSS

33. By misrepresenting its business, the defendants presented a misleading picture of Beazer's business prospects. Thus, instead of truthfully disclosing during the Class Period that Beazer's business was not as healthy as represented, Beazer falsely represented the success of its initiatives.

34. These claims of profitability caused and maintained the artificial inflation in Beazer's stock price throughout the Class Period and until the truth was revealed to the market

35. Defendants' false and misleading statements had the intended effect and caused Beazer stock to trade at artificially inflated levels throughout the Class Period, reaching as high as $48 per share.

36. On March 27, 2007, defendants were forced to publicly disclose that Beazer was under a federal investigation by the FBI for possible fraud in the Company's mortgage lending practices, causing its stock to drop to $28.77 per share.

37. As a direct result of defendants' admissions and the public revelations regarding the truth about Beazer's business and its business prospects going forward, Beazer's stock price plummeted 40% in early 2007 and on March 28, 2007 fell to $28.77 per share. This drop removed the inflation from Beazer's stock price, causing real economic loss to investors who had purchased the stock during the Class Period.

COUNT I

For Violation of §10(b) of the 1934 Act and Rule 10b-5 Against All Defendants

38. Plaintiff incorporates ¶¶1-37 by reference

39. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading

40. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they.

(a) employed devices, schemes and artifices to defraud,

(b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or

(c) engaged in acts, practices and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of Beazer common stock during the Class Period

41. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Beazer common stock. Plaintiff and the Class would not have purchased Beazer common stock at the prices they paid, or at all if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

COUNT II

For Violation of §20(a) of the 1934 Act Against All Defendants

42. Plaintiff incorporates ¶¶1-41 by reference.

43. The Individual Defendants acted as controlling persons of Beazer within the meaning of §20(a) of the 1934 Act. By reason of their positions with the Company and their ownership of Beazer stock, the Individual Defendants had the

power and authority to cause Beazer to engage in the wrongful conduct complained of herein. Beazer controlled the Individual Defendants and all of its employees. By reason of such conduct, defendants are liable pursuant to §20(a) of the 1934 Act.

CLASS ACTION ALLEGATIONS

44. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased or otherwise acquired Beazer common stock during the Class Period (the "Class"). Excluded from the Class are defendants.

45. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. Beazer has over 39.1 million shares of stock outstanding, owned by hundreds if not thousands of persons.

46. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

(a) whether the 1934 Act was violated by defendants;

(b) whether defendants omitted and/or misrepresented material facts;

(c) whether defendants' statements omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading;

(d) whether defendants knew or deliberately disregarded that their statements were false and misleading;

(e) whether the price of Beazer common stock was artificially inflated, and

(f) the extent of damage sustained by Class members and the appropriate measure of damages.

47. Plaintiff's claims are typical of those of the Class because plaintiff and the Class sustained damages from defendants' wrongful conduct

48. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

49. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for judgment as follows:

A. Dec'aring this action to be a proper class action pursuant to Fed. R Civ. P 23,

B. Awarding plaintiff and the members of the Class damages, including interest;

C. Awarding plaintiff reasonable costs and attorneys' fees; and

D. Awarding such equitable/injunctive or other relief as the Court may deem just and proper

JURY DEMAND

Plaintiff demands a trial by jury.

DATED: March 29, 2007

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